

MARKETBEATS

20
NUMBER OF
DEALS

1.90
INVESTMENT
VOLUME (TRILLION WON)

6.1
CAPITAL VALUE
(MILLION KRW/SQM)

WHAT'S NEXT

KEY TAKEAWAYS

- Office real estate transactions in Seoul and the Bundang District reached KRW 1.9 trillion during the quarter; most transactions were for Grade B and C buildings in GBD and secondary markets.
- Seoul Square, a Grade A building in CBD, recorded the second highest price paid for an office building, accounting for 50% of total transaction volume in the first quarter.
- Since last year, transactions for Grade A office buildings have remained active. This is expected to remain sustained.

MARKET OVERVIEW

Seoul Square recorded the second highest price paid for an office building; office transactions market continues to thrive

A total of 20 deals were transacted in Seoul and Bundang District, reaching KRW 1.9 trillion. The deal for Seoul Square, completed during the quarter, led the transactions market. GBD was the most active, with eight deals involving Grade B and C buildings concluded. The market stayed active as several yet-to-be completed deals were carried over from last year. Transaction volume was comparable to previous year's, which remains one of the most active on record.

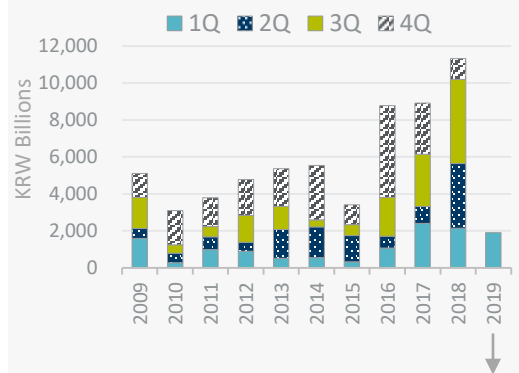
With a potential to deliver long-term returns, investors are expected to remain keen on Grade A offices. However, some investors could potentially be sidelined by the higher outlay required as well as compressing yields.

ECONOMIC INDICATOR

	2018 3Q	2018 4Q	6-Month Forecast
GDP Growth	2.0%	3.2%	▼
CPI Growth	1.6%	1.8%	▼
Unemployment	11.1%	2.7%	▲

Source: Bank of Korea

OFFICE INVESTMENT VOLUME TRK



	18.2Q	18.3Q	18.4Q	19.1Q
No. of Transactions	14	15	19	20
Transaction Volume (Trillion KRW)	3.48	4.60	1.13	1.90

Source: Cushman & Wakefield Research

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DATA INTO ACTION

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CBD

'Seoul Square' deal has completed

An estimated KRW 1.0. trillion (three deals) were transacted in CBD. Notably, Seoul Square was transacted at KRW 988 billion, recording the second highest amount paid for a building in Seoul. Iconic and well located, the building managed to shrink its long-term vacancies, snaring coworking giant Wework, reportedly on a 20-year lease, digital platform developer SK Planet and e-commerce company 11street as tenants last year. Anchored by stable long-term (over 9 years) tenants, the asset is well positioned to deliver sustained core returns. Development plans near Seoul Station as well as construction of GTX(Great Train Express) would have bolstered valuations. In contrast, divestment of Buyoung Eulji Building was temporarily suspended as the 43% vacancy rate remains a concern.

GBD

Grade B and C buildings transacted actively.

An estimated KRW 330 billion (eight deals), comprising mostly Grade B and C buildings, were transacted in GBD. Wework Tower (former PCA Life-insurance Building), which sold for KRW 150 billion, led the GBD market. Similarly, the deal came through after coworking giant Wework filled a massive void that resulted from the relocation of PCA in 2016.

YBD

Properties for last year continuously on sale

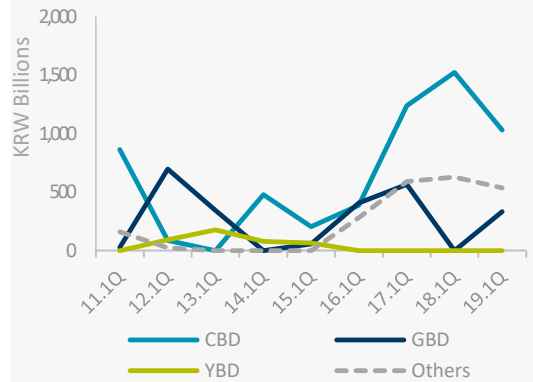
No transactions occurred in YBD. However, the market remained active due to a spillover of deals from the previous year amid a strong pipeline of assets for sale. Notably, prime office buildings on the market such as Yeouido Financial Building and NH Investment & Securities Building will be highpoints for the YBD transactions market this year.

Others

Deal for Hanjin Heavy Industries Seoul HQ has completed.

An estimated KRW 536.5 billion were transacted (nine deals) in the secondary markets. Hanjin Heavy Industries Seoul HQ in Yongsan was sold to Koramco Asset Trust for KRW 161.7 billion. Hanjin Heavy Industries conducted a sale and leaseback after Koramco exercised their Right of First Refusal. Under the arrangement, Hanjin will receive a reduced rent to leaseback the premises for 10 years. Hanjin Busan HQ also went on sale simultaneously.

OFFICE INVESTMENT VOLUME TRK BY SUBMARKET (Y-O-Y)



Source: Cushman & Wakefield Research

2019. 1Q

OFFICE INVESTMENT VOLUME BY SUBMARKET

	No.	Trillion Won	%
CBD	3	1.03	54.2
GBD	8	0.33	17.4
YBD	-	-	-
Others	9	0.54	28.4

Source: Cushman & Wakefield Research

MAJOR TRANSACTION CASE STUDY



- Building Name: Seoul Square
- Location: CBD
- GFA: 132,806 sqm
- Size: 23F/B2
- Construction Date: 1970 (Renewal: 2009)

- Price: 988 Billion/KRW
- KRW/sqm: 24,600,000
- Seller: Alpha investment partners
- Buyer: NH Investment Securities
- Vacancy: 2.8% ('19.1Q기준)
- Major Tenants: WeWork, Mercedes-Benz, Siemens

Source: Cushman & Wakefield Research

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2019.1Q TRANSACTION TREND

Preference for stabilized assets evident

The preference for well leased core assets was clear. Seoul Square and WeWork Tower were sold after successfully backfilling long-term vacancies. In contrast, the deal for Buyoung Eulji Building fell through due to its high vacancy rate. Evidently, well-leased assets that provide long-term income visibility will have an edge.

Continuing interest in value-add strategies

Similar to last year, interest in value-add opportunities remained sustained. KB Myeong-dong HQ, Hana Card Da-dong HQ and HP Building, all of which were transacted last year, were representative of value-add strategies that involved asset enhancement initiatives. Notably, NH Investment & Securities Building and Yeouido Finance Tower, deals for which are still underway, are value-add opportunities that are additionally well-located and sizable. Expectations for a deal remains high.

19. 1Q STAT ON THE GO

	LOCAL CURRENCY (KRW)	US\$ EQUIVALENT	Q-O-Q CHANGE LOCAL CURRENCY
Investment volume	1.90 trillion	1.66 billion	68.0%
Price/sq.m.	6,146,032	5,373	
YIELD	1Q 2019	Q-O-Q CHANGE	Y-O-Y CHANGE
Office	4~4.5%	N/A	N/A

Exchange Rate as at April 2019: 1USD = KRW1,143

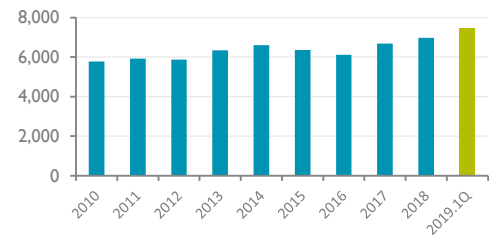
19. 2019.1Q CAPITAL VALUE

(Unit: Thousand KRW/Sqm)

	CBD	GBD	YBD	OTHERS
Total	6,658	6,690	-	5,491
GRADE A	7,442	-	-	-

CAPITAL VALUE TRK - Grade A

(Unit: Thousand KRW/Sqm)



Ref.) excluded Others district

Source: Cushman & Wakefield Research

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2019.1Q MAJOR TRANSACTION LIST

PROPERTY	SUBMARKET	PURCHASER	SQM	PRICE (KRW BILLION)
Seoul Square	CBD	NH Investment & Securities	132,806	988
WeWork Tower (Former PCA Life Insurance Tower)	GBD	JS Aseet management	19,648	150
Donghwa Building	GBD	ICURE	3,780	32
Daun Building	GBD	-	3,421	24
PSP Tower	GBD	KDC Korea	2,990	19
Uni Tech Building	GBD(Fringe)	HJP&A	3,961	33
Hanjin heavy industry Seoul HQ	Others	Koramco Asset Trust	31,786	161
Korea Post Information Center	Others	Fides Development, GL Development, Bookook securities	19,538	256
Top building	Others	Masterm Asset Management	12,192	34

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OUTLOOK

Active deal flow at CBD and YBD expected in Q2

Most deals carried over from the previous year, including other Grade A office buildings new on the market, are expected to close in the second quarter; much of these assets, located in CBD and YBD, will shape an active transaction market. State Tower Namsan and Jongno Tower, located in CBD, are being negotiated for an estimated KRW 9 million and KRW 8.2 million per sq.m. respectively. The market will be watching intently if these assets can surpass the record paid for The K-Twin Tower in Q1 2018 (KRW 8.5 million/sq.m.). NH Investment & Securities Building and Yeouido Finance Tower in YBD are expected to be sold over KRW 4.8 million/sq.m, similar to the average unit price achieved in YBD last year, despite substantial future supply. Prices are likely be sustained by ample liquidity as well as a low probability of a rate hike. However, yield compression and further downside risks of an economic slowdown are wildcards for the office investment markets.

ON-GOING / EXPECTED TRANSACTION

PROPERTY	SUBMARKET	SQM
State Tower Namsan	CBD	66,799
Centerplace	CBD	32,718
T Tower	CBD	41,500
City Bank Da-dong HQ	CBD	39,624
Hannuri Building	CBD	13,007
Samsung Life Insurance Samseong-dong Building	GBD	30,675
Nonhyeon Building	GBD	18,606
Yeouido Finance Center	YBD	42,346
NH Investment & Securities Yeouido Company Building	YBD	52,800
KB Securities Yeouido HQ	YBD	20,425
SMT Building	Others	34,598
Samsung SDS Tower West Campus	Others	99,537
D-CUBE CITY Office	Others	30,656

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